

KENTON COUNTY GOLF COURSE

June 30, 2002

*FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT
INCLUDING SUPPLEMENTAL INFORMATION*

**KENTON COUNTY GOLF COURSE
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INDEPENDENT AUDITORS' REPORT

Judge Executive and Members of
Kenton County Fiscal Court

We have audited the accompanying financial statements of Kenton County Golf Course (a component unit of the Kenton County Fiscal Court) as of and for the years ended June 30, 2002 and 2001. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kenton County Golf Course as of June 30, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 22, 2002 on our consideration of Kenton County Golf Course's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The statements of operating expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements; and, in our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
August 22, 2002

**KENTON COUNTY GOLF COURSE
BALANCE SHEETS**

ASSETS

	June 30,	
	<u>2002</u>	<u>2001</u>
Current Assets		
Cash and Cash Equivalents	\$ 243,232	\$ 482,235
Concession Receivable	15,020	17,673
Inventory	<u>58,869</u>	<u>49,707</u>
Total Current Assets	<u>317,121</u>	<u>549,615</u>
Property, Plant and Equipment, Net	<u>5,338,561</u>	<u>5,575,786</u>
Other Assets		
Bond Defeasance Costs (Net of Accumulated Amortization of \$137,712 and \$110,169, Respectively)	220,338	247,880
Capital Lease Issuance Cost (Net of Accumulated Amortization of \$23,077 and \$18,461, Respectively)	36,923	41,539
Capital Lease Discount (Net of Accumulated Amortization of \$25,675 and \$20,540, Respectively)	<u>41,081</u>	<u>46,216</u>
Total Other Assets	<u>298,342</u>	<u>335,635</u>
Total Assets	<u>\$ 5,954,024</u>	<u>\$ 6,461,036</u>

LIABILITIES AND FUND EQUITY

Current Liabilities		
Current Portion of Long-Term Debt	\$ 345,000	\$ 360,000
Accounts Payable	24,535	42,726
Accrued Payroll	27,150	24,356
Accrued Compensated Absences	90,531	74,433
Other Accrued Liabilities	58,056	67,443
Gift Certificates Outstanding	<u>20,692</u>	<u>24,866</u>
Total Current Liabilities	565,964	593,824
Long-Term Debt	<u>2,880,000</u>	<u>3,225,000</u>
Total Liabilities	<u>3,445,964</u>	<u>3,818,824</u>
Fund Equity		
Fiscal Court Contributions		
Recreation Project Grant	398,073	398,073
Revenue Sharing Allocation	481,181	481,181
Retained Earnings	<u>1,628,806</u>	<u>1,762,958</u>
Total Fund Equity	<u>2,508,060</u>	<u>2,642,212</u>
Total Liabilities and Fund Equity	<u>\$ 5,954,024</u>	<u>\$ 6,461,036</u>

See accompanying notes.

**KENTON COUNTY GOLF COURSE
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN RETAINED EARNINGS**

	Years Ended June 30,	
	2002	2001
Operating Revenues		
Pro-Shop Sales	\$ 139,900	\$ 162,683
Less Cost of Sales	<u>97,599</u>	<u>111,091</u>
Pro-Shop Gross Profit	42,301	51,592
Green Fees	1,620,176	1,699,326
Rentals-Power Carts	607,354	620,412
Rentals-Miscellaneous	11,541	13,820
Concession Commissions	<u>111,790</u>	<u>98,750</u>
Total Operating Revenues	<u>2,393,162</u>	<u>2,483,900</u>
Operating Expenses		
Payroll Expenses	1,305,184	1,203,003
Golf Course Expenses	790,700	742,303
Clubhouse and Pro-Shop Expenses	196,529	148,641
General and Administrative Expenses	<u>105,897</u>	<u>109,143</u>
Total Operating Expenses	<u>2,398,310</u>	<u>2,203,090</u>
Net (Loss) Income From Operations	<u>(5,148)</u>	<u>280,810</u>
Other Income and (Expenses)		
Interest Expense	(154,783)	(171,856)
Interest Income	15,945	27,830
Miscellaneous Income	<u>9,834</u>	<u>9,216</u>
Total Other Income and (Expenses)	<u>(129,004)</u>	<u>(134,810)</u>
Net (Loss) Income	(134,152)	146,000
Retained Earnings, Beginning	<u>1,762,958</u>	<u>1,616,958</u>
Retained Earnings, Ending	<u>\$ 1,628,806</u>	<u>\$ 1,762,958</u>

See accompanying notes.

**KENTON COUNTY GOLF COURSE
STATEMENTS OF CASH FLOWS**

	Years Ended June 30,	
	2002	2001
Cash Flows From Operating Activities		
Net (Loss) Income from Operations	\$ (5,148)	\$ 280,810
Reconciliation of Net (Loss) Income with		
Cash Flows from Operations		
Depreciation	477,939	440,783
Amortization	37,293	37,293
Loss on Trade of Fixed Assets	9,507	-
Changes In		
Concession Receivable	2,653	1,005
Other Receivables	-	8,817
Inventory	(9,162)	15,565
Accounts Payable	(18,191)	(25,005)
Accrued Liabilities	9,505	(33,830)
Gift Certificates Outstanding	(4,174)	12,563
Net Cash Provided by Operating Activities	<u>500,222</u>	<u>738,001</u>
Cash Flows Provided by Non-Capital		
Financing Activities		
Non-Operating Income	<u>9,834</u>	<u>9,216</u>
Cash Flows From Capital and Related		
Financing Activities		
Payments for Capital Acquisitions	(250,221)	(257,295)
Principal Payments on Long-Term Debt	(360,000)	(366,296)
Interest Payments on Long-Term Debt	<u>(154,783)</u>	<u>(171,856)</u>
Net Cash Used by Capital and Related		
Financing Activities	<u>(765,004)</u>	<u>(795,447)</u>
Cash Flows From Investing Activities		
Interest on Deposits	<u>15,945</u>	<u>27,830</u>
Net Change in Cash	(239,003)	(20,400)
Cash at Beginning of Period	<u>482,235</u>	<u>502,635</u>
Cash at End of Period	<u>\$ 243,232</u>	<u>\$ 482,235</u>

See accompanying notes.

**KENTON COUNTY GOLF COURSE
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 – ACCOUNTING POLICIES

The Kenton County Golf Course is a component unit and operating division of the Kenton County Fiscal Court.

Accounting policies reflected in the financial statements included herein are summarized as follows:

Basis of Accounting

The accounting records are maintained on a cash basis. However, the statements presented in this report are prepared on the accrual basis whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. The statements apply all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash and Cash Flow Information

For purposes of cash flows, cash includes cash on hand, cash in checking accounts and cash in certificates of deposit. All bank balances or deposits as of the balance sheet date are insured or collateralized.

Cash paid for interest in 2002 and 2001 was \$160,588 and \$178,477, respectively.

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Certain estimates relate to unsettled transactions and events as of the date of the financial statements. Other estimates relate to assumptions about the ongoing operations and may impact future periods. Accordingly, upon settlement, actual results may differ from estimated amounts.

Property, Plant and Equipment

The cost of property, plant and equipment is depreciated over the estimated useful lives of the related assets. Depreciation is computed on the straight-line method.

Maintenance and repairs are charged to operations when incurred. Significant betterments and renewals are capitalized. When property, plant and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

NOTE 1 – ACCOUNTING POLICIES (Continued)

The useful lives of property, plant and equipment for purposes of computing depreciation are:

Land Improvements	5-40	Years
Buildings	15-50	Years
Driveways	10-15	Years
Power Carts	3	Years
Machinery and Equipment	5-10	Years
Furniture and Office Equipment	5-12	Years

Inventory

Inventory is recorded at the lower of cost (determined on a first-in, first-out basis) or market.

Amortization

Capital lease issuance costs are recorded at cost and are amortized using the straight-line method over the life of the capital lease.

The County sold the 1997 Series Bonds at a discount of \$66,756. This discount is being amortized using the straight-line method over the term of the bonds.

Compensated Absences

It is the County's policy to permit employees to accumulate a limited amount of unused sick leave, a portion of which will be paid to any employee with over ten years of service upon separation from the County's service. Unused vacation can also be accumulated up to certain limits. The cost of the sick leave and unused vacation is accrued in the period it is earned.

NOTE 2 – CASH AND CASH EQUIVALENTS

An analysis of cash and cash equivalents is presented below:

	June 30, 2002		June 30, 2001	
	<u>Per Books</u>	<u>Per Bank</u>	<u>Per Books</u>	<u>Per Bank</u>
Checking-Interest				
Bearing	\$239,732	\$198,262	\$478,735	\$440,362
Petty Cash	<u>3,500</u>	<u>n/a</u>	<u>3,500</u>	<u>n/a</u>
Total	<u>\$243,232</u>	<u>\$198,262</u>	<u>\$482,235</u>	<u>\$440,362</u>

The amount, per books, includes deposits in transit, outstanding checks and other reconciling items.

The Golf Course maintains its deposits with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). Amounts in excess of \$100,000 in any one financial institution have additional securities pledged as collateral.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment and the related depreciation is as follows:

	June 30,	
	2002	2001
Land	\$ 354,885	\$ 354,885
Land Improvements	6,777,189	6,777,189
Buildings	1,044,812	1,044,812
Driveways	153,901	153,901
Power Carts	550,148	560,903
Machinery and Equipment	1,524,835	1,395,843
Furniture and Office Equipment	<u>137,658</u>	<u>137,658</u>
	10,543,428	10,425,191
Less Accumulated Depreciation	<u>5,204,867</u>	<u>4,849,405</u>
Total	<u>\$ 5,338,561</u>	<u>\$ 5,575,786</u>

NOTE 4 – LAND COST AND IMPROVEMENTS

From its inception in 1966, the Public Parks Corporation has held title to the initial tract of land upon which the Golf Course is operated. Subsequently, additional purchases of land were made and titled in the name of the Fiscal Court. The cost of these additional tracts are shown in these financial statements since the land was paid for and used by the Golf Course, an operating division of the Fiscal Court.

The land improvement costs shown in these financial statements have been incurred incident to the development of all the land used in the Golf Course operations and have been paid from the earnings of the Golf Course operations.

NOTE 5 – LONG TERM DEBT

Long-term debt consisted of:

	Principal Issued	Interest Rate	Year of Maturity	Balances June 30,	
				2002	2001
First Mortgage Revenue Bonds- 1966	\$ 585,000	5.625%	2001	\$ -	\$ 30,000
Mortgage Revenue Bonds-1997	4,690,000	3.85%-4.6%	2010	<u>3,225,000</u>	<u>3,555,000</u>
Total				3,225,000	3,585,000
Short-Term Portion				<u>345,000</u>	<u>360,000</u>
Net Long-Term Portion				<u>\$2,880,000</u>	<u>\$3,225,000</u>

NOTE 5 – LONG TERM DEBT (Continued)

Requirements for principal and interest payments for the next five years and thereafter are:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2003	\$ 345,000	\$145,593
2004	360,000	130,585
2005	375,000	114,745
2006	390,000	97,870
2007	410,000	80,320
Thereafter	<u>\$1,345,000</u>	<u>\$125,580</u>
	<u>\$3,225,000</u>	<u>\$694,693</u>

Descriptions of debt follows:

First Mortgage Bonds of 1966

The Kenton County, Kentucky Public Parks Corporation issued bonds dated November 1, 1966 in the amount of \$525,000 at a rate of 5.625%. The proceeds from the sale of the bonds were used to pay the costs of improvements to the course.

Mortgage Revenue Refunding Bonds, Series 1997

The Kenton County, Kentucky Public Parks Corporation issued bonds dated September 1, 1997 in the amount of \$4,690,000. The proceeds from the sale of the bonds were used to advance refund the outstanding mortgage revenue bonds, series 1990, of the Corporation, dated March 1, 1990, which were issued to pay the costs of construction, acquisition and installation of the Fox Run Golf Course.

Defeased Debt

In 1998, the County defeased the 1990 Series Bond Issue through the 1997 Series Bond Issue. A separate fund was established and funded to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and is not included in the financial statements. At June 30, 2002 the amount of this defeased debt outstanding amounted to \$3,290,000.

NOTE 6 – EMPLOYEES' RETIREMENT PLAN

Employees who work an average of 100 hours per month or more to participate in the County Employees Retirement System of Kentucky ("CERS") which is a cost sharing multiple-employer public employees retirement system created by and operating under Kentucky Law.

CERS covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

NOTE 6 – EMPLOYEES' RETIREMENT PLAN (Continued)

Participating employees contribute 5% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus 1% of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The Golf Course contributed 6.41%, 7.17% and 7.28% of employees' compensation during the fiscal years ended June 30, 2002, 2001 and 2000, respectively.

The Golf Course's required contribution for pension obligations to CERS for the fiscal years ended June 30, 2002, 2001 and 2000 were \$40,272, \$41,939 and \$47,816, respectively; 100% has been contributed for fiscal years 2002, 2001 and 2000.

NOTE 7 – RISK MANAGEMENT

The Golf Course is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Golf Course is covered by Kenton County Fiscal Court's commercial general liability insurance against these risks and all other risks of loss, including Workers' Compensation and employee health and accident insurance.

**KENTON COUNTY GOLF COURSE
STATEMENTS OF OPERATING EXPENSES**

	Years Ended June 30,	
	2002	2001
Operating Expenses		
Payroll Expenses		
Salaries and Wages	\$ 1,011,339	\$ 925,791
Payroll Taxes and Employee Benefits	293,845	277,212
Total Payroll Expenses	<u>1,305,184</u>	<u>1,203,003</u>
Golf Course Expenses		
Chemicals, Fertilizers and Seed	159,161	136,326
Maintenance	42,855	29,510
Gasoline and Oil	29,049	38,261
Repairs of Equipment	65,922	56,938
Water	60,356	89,764
Supplies and Miscellaneous	56,357	33,485
Depreciation and Amortization Expenses - Land Improvements and Equipment	<u>377,000</u>	<u>358,019</u>
Total Golf Course Expenses	<u>790,700</u>	<u>742,303</u>
Clubhouse and Pro-Shop Expenses		
Commission Expense	22,522	9,796
Utilities	33,577	27,891
Power Cart Expense	140	-
Supplies and Maintenance	39,351	28,190
Depreciation Expenses - Clubhouse Furniture and Office Equipment	<u>100,939</u>	<u>82,764</u>
Total Clubhouse and Pro-Shop Expenses	<u>196,529</u>	<u>148,641</u>
General and Administrative Expenses		
Accounting Fees	7,175	6,350
Telephone	13,152	14,694
Insurance	12,000	14,656
Supplies and Miscellaneous	26,396	24,738
Security Expense	595	480
Travel, Training and Dues	4,392	2,834
Amortization	37,293	37,293
Employee Physicals	<u>4,894</u>	<u>8,098</u>
Total General and Administrative Expenses	<u>105,897</u>	<u>109,143</u>
Total Operating Expenses	\$ <u>2,398,310</u>	\$ <u>2,203,090</u>

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Judge Executive and
Members of Kenton County Fiscal Court

We have audited the financial statements of the Kenton County Golf Course (a component unit of the Kenton County Fiscal Court) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 22, 2002. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits combined in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kenton County Golf Course's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kenton County Golf Course's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider being material weaknesses.

This report is intended for the information of management and the Kentucky Department of Local Government and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky
August 22, 2002

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August 22, 2002

Judge Executive and Members of
Kenton County Fiscal Court

During our audit of the financial statements of Kenton County Golf Course for the year ended June 30, 2002, we noted the following situations that the Court may want to consider as opportunities to improve operations or controls.

Inventory

Currently, the Golf Course takes a physical inventory at December 31. It is our recommendation that the physical inventory be taken on June 30 to match up with the fiscal year end. This will enable the inventory number to be more accurate.

There were instances noted, where the initial purchases were not entered into the inventory system, therefore as the sales were recorded the inventory values in the system became negative when there was, in fact, inventory on hand.

Gift Certificates

The gift certificate report includes many items that have expired as far back as 1993. This list should be cleaned up and all old items taken off the list.

We want to express our appreciation to the treasurer's office and to the Golf Course staff for their hard work and courteous assistance during the audit.

VonLehman & Company

